

**STATE OF UTAH INSURANCE DEPARTMENT
FINANCIAL EXAMINATION REPORT
OF**

**GREAT WESTERN INSURANCE COMPANY
OF**

OGDEN, UTAH

AS OF

DECEMBER 31, 2003



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July 30, 2004

Honorable Alfred W. Gross, Commissioner
Chair, Financial Condition (E) Committee, NAIC
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Honorable John Morrison, Commissioner
Secretary, Western Zone, NAIC
Montana Department of Insurance
840 Helena Avenue
Helena, Montana 59601

Honorable Merwin U. Stewart, Commissioner
Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination was conducted as of December 31, 2003, of the financial condition and business affairs of

GREAT WESTERN INSURANCE COMPANY
of
Ogden, Utah

a stock life insurance company, hereinafter referred to as the Company.

SCOPE OF EXAMINATION

Period Covered by Examination

The last examination was made as of December 31, 1999. The current examination covers the period from January 1, 2000, through December 31, 2003, including any material transactions and/or events occurring subsequent to the examination.

Examination Procedure Employed

The examination was conducted to determine compliance with accounting practices and procedures in conformity with the applicable laws of the state of Utah, insurance rules promulgated by the state of Utah Insurance Department (Department), and Statements of Statutory Accounting Principles (SSAPs) contained within the Accounting Practices and Procedures Manual promulgated by the National Association of Insurance Commissioners (NAIC).

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted during the examination period, and a determination of its financial condition as of December 31, 2003. Assets were verified and valued, and liabilities were determined or estimated.

The Company retained a certified public accounting firm to audit its financial records for the years under examination. The firm allowed the examiners access to requested work papers prepared in connection with its audits. These work papers were utilized by the examination on a limited basis in the verification of certain balance sheet accounts and as a supplement to the procedures performed during the examination.

A letter of representation, certifying that management has disclosed all significant matters and records, was obtained from management and has been included in the examination work papers.

Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

The Company has addressed all of the important points and recommendations noted in the prior examination report.

HISTORY

General

The Company was incorporated as a stock life insurance company under the laws of the state of Utah on March 1, 1983. On April 26, 1983, the state of Utah issued the Company a Certificate of Authority to write life and disability insurance. The articles of incorporation provide for a perpetual corporate existence.

In May 1989, the Company's parent corporation, Lindquist & Sons, sold 50% interest of the Company to Desert Lawn, Inc., of Las Vegas, Nevada. On December 17, 1992, the remaining shares owned by Lindquist & Sons were sold to JAMEL Ltd., an affiliated organization. On March 18, 1996, Desert Lawn, Inc., and Palm Memorial Estate Plans, Inc. merged to form Palm Mortuary, Inc. As of December 31, 2003, 50% of the outstanding shares of the Company were owned by JAMEL Ltd., a non-insurance Utah

Limited Partnership and 50% by Palm Mortuary, Inc., a non-insurance Nevada Corporation.

In December 1998, the Company purchased a small inactive company, Great Western Life Insurance Company (GWLIC), domiciled in the state of Montana.

During the period covered by this examination, there were no amendments made to the bylaws or articles of incorporation.

Capital Stock

As of December 31, 2003, the Company had 200,000 shares of authorized and outstanding capital stock with a par value of \$12.50 per share. The controlling interest was shared equally between two shareholders, JAMEL Ltd., a Utah Limited Partnership and Palm Mortuary, Inc., a Nevada Corporation.

Dividends to Stockholders

The Company neither declared nor paid any dividends during the examination period.

Management

Management of the Company is vested in its board of directors. The following individuals were serving as directors of the Company as of December 31, 2003:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Kenneth Knauss Las Vegas, Nevada	Owner Palm Mortuary, Inc.
Roger L. Kreml Las Vegas, Nevada	Controller Palm Mortuary, Inc.
John A. Lindquist Ogden, Utah	Chairman of the Board Great Western Insurance Company
John E. Lindquist Ogden, Utah	Owner Lindquist and Sons
Fred L. Meese Layton, Utah	Secretary/Treasurer Great Western Insurance Company

Officers serving at December 31, 2003, were as follows:

<u>Name</u>	<u>Title</u>
John E. Lindquist	President
Kenneth Knauss	Vice President
Fred L. Meese	Secretary/Treasurer

Executive and audit committee members at December 31, 2003, were as follows:

<u>Executive Committee</u>	<u>Audit Committee</u>
Ken Knauss	Ken Knauss
John E. Lindquist	John E. Lindquist
Fred L. Meese	

On July 22, 2004, the executive committee appointed John A. Lindquist to serve on the audit committee. This appointment was made to be consistent with U.C.A. §31A-5-412(1) which states that committees shall consist of three or more directors.

Conflict of Interest Procedure

During the period covered by the examination, directors or officers of the Company completed conflict of interest statements annually. No exceptions were noted.

Corporate Records

Corporate records generated during the examination period were reviewed. The records consisted of minutes from the meetings of the board of directors, shareholders and committees. The minutes contained detailed information about the Company including current events, officer and director elections, investment transactions and regulatory issues. In general, the minutes adequately approved and supported the Company's transactions and events.

The prior examination report as of December 31, 1999, was distributed to the board in May 2001.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

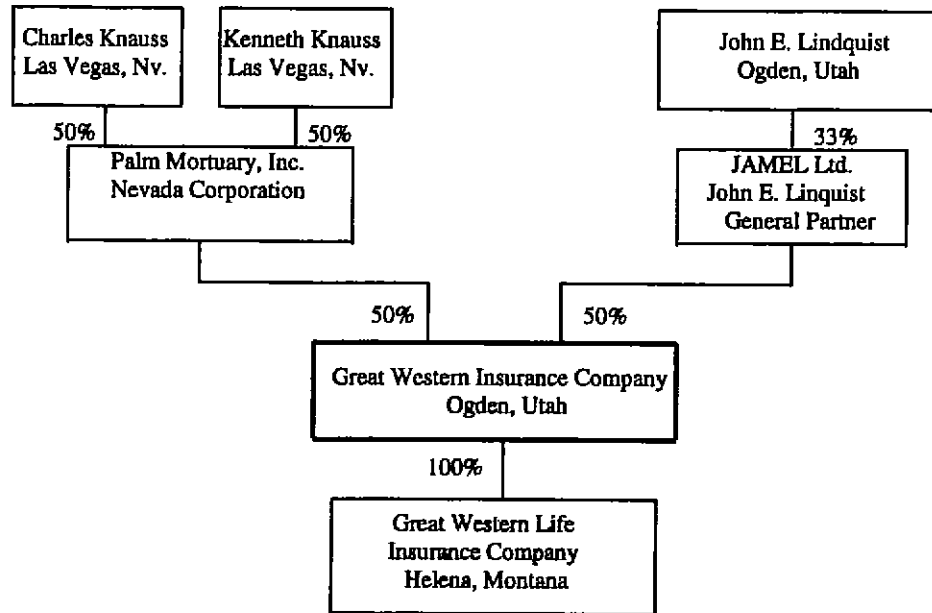
There were no acquisitions, mergers, disposals, dissolutions and purchases or sales through reinsurance that involved the Company during the examination period.

Surplus Debentures

The Company was not party to any surplus debentures during the examination period.

AFFILIATED COMPANIES

The Company is a member of the following insurance holding company system:



Since January 1999, the Company has maintained an administrative services agreement with its subsidiary, Great Western Life Insurance Company (GWLIC). Under the agreement, the Company has provided administrative services relative to the operation of GWLIC's insurance business. Specifically, GWLIC paid the Company on a quarterly basis for general accounting services of \$1.50 per policy in-force and investment management services equal to 25 basis points of total cash and invested assets.

FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for an insurer of the Company's size and premium volume is not less than \$900,000. As of December 31, 2003, the Company had fidelity bond coverage of \$600,000, however during the examination this was increased to the suggested minimum of \$900,000.

The Company also had additional insurance protection against loss from property and liability risks

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's pension and profit-sharing plan and insurance plans consisted of participation in programs underwritten by National Benefit Services and United Health Care. Participation in these programs was optional for employees. The pension and profit-sharing plan allowed eligible employees to contribute up to 15% of their wages. The Company matched pension contributions up to 5% of wages. Also, the Company made a profit sharing contribution annually based on the profitability of the Company.

The Company's insurance programs provided to its qualified employees consisted of health, dental, long-term disability and life insurance benefits. Provision was made in the financial statement for company obligations under these plans.

STATUTORY DEPOSITS

Pursuant to U.C.A §31A-4-105, the Company was required to maintain a deposit in an amount equal to its minimum capital requirement. The Company's minimum capital requirement was \$400,000 at December 31, 2003. The special deposits maintained by or through regulatory agencies in the policyholders behalf, as of December 31, 2003, were as follows:

<u>State</u>	<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>
Utah	U.S. Treasury Notes and FNMA Obligations	\$ 5,354,907	\$ 5,549,381
Nevada	Anheuser Busch Co. Notes	<u>99,077</u>	<u>107,594</u>
Total		<u>\$ 5,453,984</u>	<u>\$ 5,656,975</u>

Special deposits held through various state insurance departments and not held for the benefit of all policyholders as of December 31, 2003, were as follows:

<u>State</u>	<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>
Georgia	U.S. Treasury Notes	\$ 151,409	\$ 153,000
New Mexico	U.S. Treasury Notes	146,216	144,187
North Carolina	U.S. Treasury Notes	416,611	428,124
Virginia	Gillette Co. Obligations	<u>240,583</u>	<u>265,717</u>
Total		<u>\$ 954,819</u>	<u>\$ 991,028</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

As of December 31, 2003, the major portion of the Company's premium revenue was generated from the sale of whole life insurance policies designed to provide increasing benefit, funeral insurance. Plans offered include single premium, 1 year, 3 year, 5 year and 10 year paid up policies. Most policies were participating, guaranteed issue. The policy forms issued during the examination period were consistent with Department approved forms.

The Company retains the full amount of risk on each insurance policy it issues. The face amount of policies issued are equivalent to final funeral costs. Policies are presently written in amounts up to \$20,000.

The underwriting is performed by agents who determine whether a policy will be issued as a guaranteed issue or a first day benefit policy. The guaranteed issue policy provides benefit restrictions for the first two years. After the second year, both policies have the same benefit.

Territory and Plan of Operation

The Company was licensed and authorized to transact life and accident and health insurance in the following 43 states as of December 31, 2003:

Alabama	Georgia	Louisiana	Montana	Oklahoma	Texas
Arizona	Idaho	Maine	Nebraska	Oregon	Utah
Arkansas	Illinois	Maryland	Nevada	Pennsylvania	Vermont
California	Indiana	Michigan	New Mexico	Rhode Island	Virginia
Colorado	Iowa	Minnesota	North Carolina	South Carolina	Washington
Delaware	Kansas	Mississippi	North Dakota	South Dakota	West Virginia
Florida	Kentucky	Missouri	Ohio	Tennessee	Wisconsin
					Wyoming

As of December 31, 2003, the Company marketed its products under a general agency plan. A home office sales staff is maintained to service existing general agents and solicit additional general agents as determined by the marketing department.

Premium was written in 32 states, with the largest direct premium concentrated as follows:

<u>State</u>	<u>Direct Premium</u>
California	\$15,145,578
Wisconsin	8,744,706
Arizona	7,630,724
Utah	7,270,844
Minnesota	6,965,317
Subtotal	45,757,169
All other states	40,723,852
Total Direct Premium	<u>\$86,481,021</u>

Advertising and Sales Material

The Company markets its pre-need funeral insurance products through general agents and agents associated with funeral homes. The Company does not conduct an extensive advertising program to the general public. Most advertising consisted of a brochure and pamphlet containing general information. In addition, the Company maintains a web site, "www.gwic.com," with information on products and services. These items were reviewed and determined acceptable for examination purposes.

Treatment of Policyholders

During the examination period, there was one complaint filed with the Department which was determined to be justified and resolved. The examiners encountered no other items of concern regarding treatment of policyholders. In addition, the Company maintained a complaint log to monitor complaints.

REINSURANCE

Assumed

As of July 11, 2001, the Company began assuming premiums from Southern Financial Life Insurance Company (SFLIC), a non-affiliated insurer. Under provisions contained in the agreement, the Company assumed 100% of the net written premium with a 6% ceding fee. The maximum amount of loss coverage was \$20,000.

In September 2001, the Company executed an administrative services agreement with SFLIC. The agreement states that the Company will provide administrative services relating to certain SFLIC insurance products and will settle costs on a monthly basis.

Ceded

The Company neither maintained, nor entered into any ceded reinsurance arrangements during the examination period.

ACCOUNTS AND RECORDS

The Company's accounting system was maintained on an accrual basis and consisted of a general ledger, sub-ledgers, journal registers and other computerized reports created from source documents. The Company utilized various commercial software packages to maintain its accounting and policyholder information.

An examination trial balance, as of December 31, 2003, was prepared from the Company's computerized general ledger. Account balances were traced to annual statement exhibits and schedules. Individual account balances for the examination period were examined as deemed necessary.

Accounts and records deficiencies noted during the examination included the following:

- The Company recorded some bond and stock acquisitions and disposals on the settlement date rather than the trade date. This was not consistent with SSAP No. 26, paragraph 4, SSAP No. 30, paragraph 5 and SSAP No. 32, paragraph 10. It is recommended that the Company properly report the trade date on all acquisitions and disposals.
- The Company did not properly calculate the reserve for non-guaranteed death benefit increases associated with limited-pay assumed life insurance policies. The estimated effect of the error was an overstatement of approximately \$1,976.
- The Company did not properly record the premiums due on its credit life business. The estimated effect of the error was \$689.

FINANCIAL STATEMENT

The following financial statements are included in the examination report:

Balance Sheet as of December 31, 2003

Summary of Operations as of December 31, 2003

Capital and Surplus for the Years 2000 through December 31, 2003

The Comments on Financial Statement immediately following the financial statements are an integral part of the statements.

GREAT WESTERN INSURANCE COMPANY
Balance Sheet as of
December 31, 2003

ASSETS

	<u>Amount</u>
Bonds	\$ 218,985,898
Preferred stocks	10,279,280
Common stocks	4,462,861
Mortgage loans on real estate	1,074,337
Cash and short-term investments	6,139,031
Contract loans	244,700
Investment income due and accrued	2,602,707
Uncollected premiums and agents' balances	270,191
Deferred premiums, agents balances and installments	5,283,100
Current federal and foreign income tax recoverable	637,246
Net deferred tax asset	1,078,978
Electronic data processing equipment and software	8,954
Receivable from parent, subsidiaries, and affiliates	20,175
Total assets	<u>251,087,258</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserves for life contracts	218,375,894
Contract claims: Life	1,462,581
Dividends apportioned for payment	4,142,896
Premiums and annuity considerations for life and health contracts received in advance	416,209
Interest Maintenance Reserve	956,043
Commissions to agents due or accrued	6,319
General expenses due or accrued	1,111,300
Taxes, licenses, and fees due or accrued, excluding federal income taxes	509,342
Unearned investment income	9,496
Amounts withheld or retained by company as agent or trustee	11,991
Amounts held for agents' account	401,430
Remittances and items not allocated	210,771
Borrowed money	2,712,016
Asset valuation reserve	1,334,863
Total liabilities	<u>231,661,151</u>
Common capital stock	2,500,000
Gross paid in and contributed surplus	4,000,000
Unassigned funds (surplus)	12,926,107
Total capital and surplus	<u>19,426,107</u>
Total liabilities, capital and surplus	<u>\$ 251,087,258</u>

GREAT WESTERN INSURANCE COMPANY
Summary of Operations
as of December 31, 2003

Premium and annuity considerations for life and accident and health contracts	\$ 89,169,508
Net investment income	13,444,238
Amortization of Interest Maintenance Reserve	<u>(14,580)</u>
Total revenues	<u>102,599,186</u>
Death benefits	27,927,603
Surrender benefits and withdrawals for life contracts	359,978
Increase in aggregate reserves for life and accident and health policies and contracts	<u>41,806,871</u>
Total benefits and reserves	70,094,552
Commissions on premiums, annuity considerations and deposit-type contract funds	12,613,244
Commissions and expense allowances on reinsurance assumed	65,441
General insurance expenses	6,029,325
Insurance taxes, licenses and fees, excluding federal income taxes	2,321,872
Increase in loading on deferred and uncollected premiums	<u>661,696</u>
Total expenses	<u>91,786,130</u>
Net gain from operations before dividends to policyholders and federal income taxes	10,813,056
Dividends to policyholders	<u>5,271,764</u>
Net gain from operations after dividends to policyholders and before federal income taxes	5,541,292
Federal income taxes incurred	<u>1,470,367</u>
Net gains from operations after federal income taxes and before realized capital gains	4,070,925
Net realized capital gains or (losses)	<u>64,293</u>
Net income	<u><u>\$ 4,135,218</u></u>

GREAT WESTERN INSURANCE COMPANY
Capital and Surplus
for the Years 2000 through December 31, 2003

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Capital and surplus, December 31, previous year	\$ 12,520,407	\$ 12,685,916	\$ 15,011,579	\$ 16,187,159
Net income	510,605	1,784,810	1,757,336	4,135,218
Change in net unrealized capital gains (losses)	(149,190)	(420,297)	(868,385)	58,013
Change in net deferred income tax	-	452,626	119,447	184,904
Change in nonadmitted assets	(238,385)	124,319	(210,616)	(82,506)
Change in asset valuation reserve	<u>42,479</u>	<u>384,200</u>	<u>377,798</u>	<u>(1,058,881)</u>
Net change in capital and surplus for the year	<u>165,509</u>	<u>2,325,658</u>	<u>1,175,580</u>	<u>3,238,948</u>
Capital and surplus, December 31, current year	<u>\$ 12,685,916</u>	<u>\$ 15,011,574</u>	<u>\$ 16,187,159</u>	<u>\$ 19,426,107</u>

COMMENTS ON FINANCIAL STATEMENT

There were no adjustments to the financial statements and it was determined that comments were not necessary.

CAPITAL AND SURPLUS

The capital and surplus reported by the Company in its 2003 regulatory annual financial statement blank was \$19,426,107. No adjustments were determined necessary for examination purposes.

U.C.A. §31A-5-211(2)(a) requires the Company to maintain minimum capital in the amount of \$400,000. The Company reported total adjusted capital of \$22,837,740 and an authorized control level risk-based capital (RBC) requirement of \$2,629,749 as of December 31, 2003.

SUMMARY

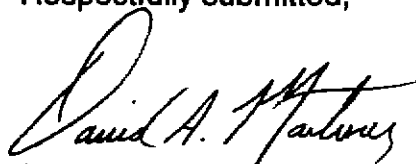
Items of significance or special interest contained in this report are summarized below:

1. As of December 31, 2003, the Company's audit committee consisted of two directors. U.C.A. §31A-5-412(1) states that committees shall consist of three or more directors. On July 22, 2004, the Company appointed a third individual to serve on the audit committee. (HISTORY)
2. As of December 31, 2003, the Company's fidelity bond coverage of \$600,000, did not meet the NAIC suggested minimum of \$900,000. During the examination, the Company increased the fidelity bond coverage to the suggested minimum. (FIDELITY BOND AND OTHER INSURANCE)
3. Accounts and records deficiencies were noted during the examination. (ACCOUNTS AND RECORDS)
4. U.C.A. §31A-5-211(2)(a) requires the Company to maintain minimum capital in the amount of \$400,000. The Company reported total adjusted capital of \$22,837,740 and an authorized control level risk-based capital (RBC) requirement of \$2,629,749 as of December 31, 2003. (CAPITAL AND SURPLUS)

CONCLUSION

The assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Company are acknowledged. Mr. Faanu Laufiso, Financial Examiner, representing the Utah Insurance Department, participated in the examination. In addition to the undersigned, Mr. Thomas Burger of Taylor-Walker & Associates, conducted the actuarial phases of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "David A. Martinez". The signature is fluid and cursive, with the first name "David" being the most prominent.

David A. Martinez, OEE
Examiner in Charge, representing the
Utah Insurance Department